

**REHABILITATION HOSPITAL  
OF INDIANA, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

REHABILITATION HOSPITAL OF INDIANA, INC.  
Indianapolis, Indiana

FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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Crowe Chizek and Company LLC  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Rehabilitation Hospital of Indiana, Inc.  
Indianapolis, Indiana

We have audited the accompanying consolidated balance sheets of Rehabilitation Hospital of Indiana, Inc. (the Hospital), as of December 31, 2007 and 2006, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rehabilitation Hospital of Indiana, Inc. as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

  
Crowe Chizek and Company LLC

Indianapolis, Indiana  
March 24, 2008

REHABILITATION HOSPITAL OF INDIANA, INC.  
CONSOLIDATED BALANCE SHEETS  
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,260,021	\$ 2,750,479
Patient accounts receivables, less allowance for doubtful accounts of \$1,755,760 and \$2,062,675 for 2007 and 2006, respectively (Note 2)	7,151,266	6,048,601
Estimated third party settlements (Note 2)	665,485	952,501
Inventories	280,483	227,647
Prepaid expenses and other current assets	205,479	137,416
Investments	<u>1,494,594</u>	<u>1,210,233</u>
Total current assets	11,057,328	11,326,877
Property and equipment		
Land	1,917,436	1,957,754
Buildings and improvements	13,865,638	13,431,850
Equipment	9,615,437	9,834,331
Construction in progress	<u>464,786</u>	<u>755,785</u>
	25,863,297	25,979,720
Less accumulated depreciation	<u>14,652,239</u>	<u>15,270,834</u>
Property and equipment, net	11,211,058	10,708,886
Other assets		
Land held for expansion	602,474	602,474
Unamortized debt issuance costs	<u>120,275</u>	<u>140,045</u>
Total other assets	<u>722,749</u>	<u>742,519</u>
Total assets	<u>\$ 22,991,135</u>	<u>\$ 22,778,282</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 1,489,014	\$ 2,315,476
Salaries, wages, and related liabilities	1,560,217	1,422,362
Accrued interest	53,268	60,069
Current portion of capital lease	116,922	30,068
Current portion of long term debt (Note 7)	<u>700,000</u>	<u>724,466</u>
Total current liabilities	3,919,421	4,552,441
Long-term debt, less current portion (Note 7)	14,400,000	15,100,000
Interest rate swap agreement	557,074	231,045
Long-term portion of capital lease	<u>380,424</u>	<u>-</u>
	15,337,498	15,331,045
Total liabilities	19,256,919	19,883,486
Net assets		
Unrestricted	3,584,412	2,768,880
Temporarily restricted	<u>149,804</u>	<u>125,916</u>
Total net assets	<u>3,734,216</u>	<u>2,894,796</u>
Total liabilities and net assets	<u>\$ 22,991,135</u>	<u>\$ 22,778,282</u>

See accompanying notes to financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Unrestricted revenues		
Net patient service revenue	\$ 34,815,217	\$ 34,407,044
Other revenue	441,562	761,685
Net assets released from restrictions	<u>379,757</u>	<u>240,909</u>
Total unrestricted revenues	35,636,536	35,409,638
Expenses		
Salaries and wages	16,274,419	15,064,600
Employee benefits	5,332,507	4,298,210
Contract and purchased services	5,689,317	5,485,072
Supplies	2,535,080	2,357,275
Utilities and other	2,243,465	2,151,876
Depreciation and amortization	802,487	822,552
Interest	738,846	771,537
Provision for bad debts	<u>1,036,010</u>	<u>2,001,512</u>
Total expenses	34,652,131	32,952,634
Nonoperating revenues		
Interest income	157,156	145,549
Gain (loss) on swap	<u>(326,029)</u>	<u>(231,045)</u>
Total nonoperating revenue (expense)	<u>(168,873)</u>	<u>(85,496)</u>
<b>Gain from operations and change in unrestricted net assets</b>	815,532	2,371,508
Temporarily restricted net assets		
Contributions	382,000	221,619
Net assets released from restrictions	(379,757)	(240,909)
Investment earnings	<u>21,645</u>	<u>5,783</u>
Change in temporarily restricted net assets	<u>23,888</u>	<u>(13,507)</u>
<b>Change in net assets</b>	839,420	2,358,001
Net assets, beginning of year	<u>2,894,796</u>	<u>536,795</u>
<b>Net assets, end of year</b>	<u>\$ 3,734,216</u>	<u>\$ 2,894,796</u>

See accompanying notes to financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Operating activities</b>		
Change in net assets	\$ 839,420	\$ 2,358,001
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	802,487	822,552
Net unrealized appreciation in investments	(75,743)	(16,559)
(Gain) loss on disposal of assets	(139,213)	1,840
Change in interest rate swap agreement	326,029	231,045
Provision for bad debts	1,036,010	2,001,512
Change in operating assets and liabilities		
Patient accounts receivable, net	(2,138,675)	(2,236,766)
Inventories and other current assets	(120,899)	75,573
Accounts payable and other accrued liabilities	(826,462)	(760,385)
Salaries, wages, and related liabilities	137,855	(251,780)
Accrued interest	(6,801)	13,172
Estimated third-party settlements	<u>287,016</u>	<u>(551,927)</u>
Net cash from operating activities	121,024	1,686,278
<b>Investing activities</b>		
Purchases of property and equipment	(873,173)	(791,236)
Purchase of investments	(5,025,982)	(2,793,971)
Proceeds from sale of investments	4,817,364	1,600,297
Proceeds from sale of property and equipment	<u>243,530</u>	<u>2,000</u>
Net cash used in investing activities	(838,261)	(1,982,910)
<b>Financing activities</b>		
Repayments on long-term debt	(700,000)	(646,558)
Principal payments on capital lease obligations	<u>(73,221)</u>	<u>(40,531)</u>
Net cash used in financing activities	<u>(773,221)</u>	<u>(687,089)</u>
Change in cash and cash equivalents	(1,490,458)	(983,721)
Cash and cash equivalents, beginning of year	<u>2,750,479</u>	<u>3,734,200</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 1,260,021</u></u>	<u><u>\$ 2,750,479</u></u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 745,647	\$ 758,365
Purchase of equipment through capital lease	516,033	-

See accompanying notes to financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization: Rehabilitation Hospital of Indiana, Inc. (the Hospital) operates a 90 bed, freestanding specialty medical rehabilitation hospital located in Indianapolis, Indiana. The Hospital provides short-term, comprehensive rehabilitation services to patients, and its programs are designed to restore physical, cognitive and psychosocial functions following an incident of acute illness or trauma. Inpatient and outpatient therapy and support services provided by the Hospital include physical and occupational therapy, speech therapy, recreational therapy, activities of daily living, rehabilitation nursing, psychology, social services and cognitive retraining, and sub-acute services.

Not-for-profit corporations St. Vincent Health, Inc. and Clarian Health Partners, Inc. are the corporate members of the Hospital. In accordance with the terms of the joint venture agreement, cash distributions from the Hospital are shared by the joint venture partners, subject to certain cash flow restrictions. Additionally, the agreement contains provisions for working capital loans and support of the Hospital upon mutual agreement by the corporate members.

Included with the operations of the Hospital is RHI Foundation, Inc. (the Foundation) which was established to promote and support the mission of the Hospital. The Hospital is the sole corporate member of the Foundation. All significant intercompany accounts have been eliminated in consolidation.

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of Rehabilitation Hospital of Indiana, Inc. and Rehabilitation Hospital Foundation, Inc. (collectively referred to as the "Hospital"). All inter-hospital accounts and transactions between affiliated organizations have been eliminated in consolidation.

Charity Care and Community Benefit: The Hospital provides medical care to all patients regardless of their ability to pay. A patient is classified as charity care in accordance with certain established policies and is provided care without charges or at amounts less than established rates. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue. Records are maintained to identify and monitor the level of charity care provided including the amount of charges foregone for services and supplies furnished. Amounts measured at established rates for charity for years ended December 31, 2007 and 2006 are \$1,239,527 and \$894,704, respectively.

REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Hospital provides certain services to benefit the community. These services (for which a nominal or no amount is charged) include education programs, access to rehabilitative related support group classes, transportation to patients in specially equipped vans, and assistance to patients and their families for the submission of forms for insurance, financial counseling, and application to the Medicare and Medicaid programs for health service coverage. The costs of these services are included in operating expenses.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

Held-to-maturity Investments: Securities can be classified as held-to-maturity, available-for-sale, and trading categories. Available-for-sale securities are those that the Hospital may decide to sell if needed for liquidity, asset-liability management, or other reasons. Available-for-sale securities are reported at fair value with unrealized gains or losses included as a separate component of equity and also recognized as part of comprehensive income (loss). Securities identified as held-to-maturity are carried at amortized cost and are those that the Hospital has the positive intent and ability to hold to maturity. Trading securities are bought principally for sale in the near term and are reported at fair value with unrealized gains or losses included in earnings.

Realized gains or losses are determined based on the amortized cost of the specific security sold. Interest and dividend income, adjusted by amortization of purchase premium or discount, is included in earnings. Securities with declines in fair value below amortized cost that are other than temporary are written down to fair value by a charge to earnings.

Cash and cash equivalents held by brokerage firms are included in investments.

Cash and Cash Equivalents: For the purpose of the statements of cash flows, cash includes cash and cash equivalents with original maturities of 90 days or less.

Patient Accounts Receivable, Estimated Third-Party Settlements, and Net Patient Service Revenue: Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered.

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REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Estimated retroactive adjustments as provided by reimbursement agreements with certain third-party payors are included with net patient service revenue and estimated third-party payor receivables or payables. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The allowance for doubtful accounts represents the expected losses to be realized upon ultimate collection of patient accounts receivable, which are not subject to third-party payor agreements. Allowance estimates are based on historical experience and other relevant factors. Accounts determined to be uncollectible are charged to operations in the year in which they are determined to be uncollectible. The Hospital can charge interest on past due accounts meeting certain criteria. There was no interest charged for the years ended December 31, 2007 and 2006.

Inventories: Inventories, are stated at the lower of cost or market, with cost determined by the first-in, first-out (FIFO) method .

Property and Equipment and Depreciation: Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

Debt Issuance Costs: Costs incurred in connection with the issuance of debt are amortized using the bonds outstanding method over the term of the related debt. Accumulated amortization on the debt issuance costs is \$269,645 and \$249,875, as of December 31, 2007 and 2006, respectively.

Derivative and Hedging: The Hospital entered into an interest swap agreement with a financial institution to fix the rate on the bonds that are discussed more fully in footnote 7. The Hospital accounts for this arrangement under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as a fair value hedge. Accordingly, the value of the derivatives at December 31, 2007 have been reflected at fair value on the balance sheets with the offset being reflected in non-operating revenues.

REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Medical Malpractice: The Hospital maintains medical malpractice insurance coverage on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. However, the Indiana Medical Malpractice Act provides for a maximum recovery of \$750,000 per occurrence for professional liability, \$250,000 of which would be paid through malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund.

Gain from Operations: The consolidated statements of operations includes gain from operations as the performance indicator. Changes in net assets that are excluded from gain from operations, consistent with industry practice, include contributions temporarily restricted by donor stipulations.

Description of Net Assets: Net assets are classified into categories based upon the presence or absence of donor restrictions. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. These funds are primarily restricted to chaplaincy, employee loans, patient assistance and sports programs. All other assets are considered unrestricted.

Income Taxes: The Hospital is a not-for-profit corporation pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to Section 501(a). Accordingly, no provision for income taxes is required for the Hospital in the consolidated financial statements.

Advertising costs: The Hospital expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2007 and 2006 were \$105,384 and \$46,097.

Fair Value of Financial Instruments: The Hospital's carrying amount for its financial instruments, which include cash, accounts receivable, accounts payable, liabilities associated with the interest rate swap, and long-term debt at December 31, 2007 and 2006 are carried at their estimated fair values. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data and developing these estimates.

REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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**NOTE 2 - NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from established rates. Contractual arrangements with the Medicare program provide for inpatient and certain outpatient services to be paid based on cost reimbursement methodologies. Effective January 1, 2002, Medicare initiated the Rehabilitation Inpatient Prospective Payment System, whereby inpatient services are paid on a prospective basis. Effective January 1, 2003 the Hospital elected the Prospective Payment System for the entire rate. Reimbursement for Medicaid services is paid on a per diem basis and per occasion of service for inpatient and outpatient services, respectively. For cost reimbursed programs, the Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. Estimates have been made for retroactive adjustments for open cost reports through December 31, 2007.

Effective August 1, 2000, Medicare initiated the Outpatient Prospective Payment System, whereby certain outpatient services will be paid on a prospective basis. There were certain provisions that allowed for transitional payments through 2004 if payment under the prospective method fell below what would have been paid on the cost method. Differences between the total program billed charges and the Medicare Prospective Payment are reflected as deductions from revenues.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the statements of operations and changes in net assets follows:

	<u>2007</u>	<u>2006</u>
Routine services	\$ 23,561,275	\$ 22,048,494
Ancillary services		
Inpatient	26,613,203	23,512,390
Outpatient	10,171,177	8,893,841
Physician services	<u>91,990</u>	<u>167,683</u>
	60,437,645	54,622,408
Less contractual allowances and charity care charges foregone	<u>25,622,428</u>	<u>20,215,364</u>
Net patient service revenue	<u>\$ 34,815,217</u>	<u>\$ 34,407,044</u>

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REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 2 - NET PATIENT SERVICE REVENUE (Continued)**

Certain payments from third-party payors, particularly the state Medicaid program, are subject to pre-certification for medical necessity and use varying and complex methodologies in determining payment and other factors. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines and penalties from the Medicare and Medicaid programs.

**NOTE 3 - CONCENTRATIONS**

A major amount of the Hospital's receivables and revenue are due from Medicare, Blue Cross/Blue Shield, and others, the loss of any one of which may have an adverse effect on the Hospital.

	<u>Accounts Receivable</u>	<u>Revenue</u>
Medicare	22%	47%
Medicaid	26%	13%
Managed Care / Commercial/Other	38%	28%
Blue Cross/Blue Shield	14%	12%

**NOTE 4 - FUNCTIONAL EXPENSES**

The Hospital provides rehabilitative health care services to patients in Central Indiana. Functional expenses categorized by their natural classification for the years ended, December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Rehabilitative services	\$ 31,964,808	\$ 30,429,076
General and administrative	2,535,080	2,357,159
Fundraising	<u>152,243</u>	<u>166,399</u>
	<u>\$ 34,652,131</u>	<u>\$ 32,952,634</u>

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REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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**NOTE 5 - INVESTMENTS**

The following are the major types of held-to-maturity investments held by the Hospital at December 31, 2007. The investments in government securities noted below at December 31, 2007 have a maturity of six months or less:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 1,120,198	\$ 1,120,198	\$ 351	\$ 351
Government securities	374,396	374,396	1,209,882	1,209,882

Investment earnings included in support are composed of the following for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Investment income	\$ 75,743	\$ 16,559

**NOTE 6 - NOTES PAYABLE**

At December 31, 2007, the Hospital has an available line of credit of \$1,000,000. Amounts borrowed on the line of credit amounted to \$0 as of December 31, 2007 and 2006, respectively. Interest is payable at the LIBOR rate plus 0.85%. This line is secured by guarantees of corporate member Hospitals. The line expires in September 2008. The agreement also contains various loan covenants. At December 31, 2007, the Hospital was in compliance with all covenants.

REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007 and 2006

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**NOTE 7 - LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2007</u>	<u>2006</u>
Indiana Health Facility Financing Authority Adjustable Convertible Extendible Securities Hospital Revenue Bonds, Series 1990 Term Bonds, payable through November 2020, subject to mandatory redemption. Interest payable monthly at variable rates (3.44% and 3.93% at December 31, 2007 and 2006, respectively).	\$ 15,100,000	\$ 15,800,000
Secured equipment loan, payable in monthly installments of \$4,157, including interest at 6.4% through June 2007.	-	24,466
	15,100,000	15,824,466
Less current portion of long-term debt	<u>700,000</u>	<u>724,466</u>
	<u>\$ 14,400,000</u>	<u>\$ 15,100,000</u>

Scheduled annual maturities of long-term debt are as follows:

2008	\$ 700,000
2009	800,000
2010	800,000
2011	900,000
2012	1,000,000
Thereafter	<u>10,900,000</u>
	<u>\$ 15,100,000</u>

The interest rate on the Series 1990 Bonds is determined on a weekly basis, payable on the first business day of each calendar month. As provided in the various bond agreements, the interest rate determination is subject to conversion to other interest modes, which determine the frequency, dates, and calculation of interest payments. The Hospital and Rate-Setting Agent can change to another interest mode by giving notice. In addition, bondholders of the Series 1990 Bonds have the option to present the bonds for purchase to the Remarketing Agent at various times during the year. An agreement with a commercial bank has been entered into to provide liquidity support up to the aggregate principal amount plus accrued interest should any bonds, presented by bondholders for purchase, not be remarketed.

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REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7 - LONG-TERM DEBT (Continued)**

In addition, the agreement provides an irrevocable letter of credit as security for the payment of principal and interest when due on the Series 1990 Bonds. The Agreement's expiration date is open. The Hospital's obligation to repay amounts drawn using the letter of credit has been guaranteed severally, but not jointly, by related parties of the corporate members. Except as permitted by the Master Trust Indenture, the Hospital may not grant a mortgage or make a specific pledge of its revenue. In addition, the various agreements contain certain restrictive covenants including minimum debt service coverage ratios and limitations on additional borrowings. The Hospital was in compliance with their debt covenants as of December 31, 2007.

Interest Rate Swap: The Company entered into an interest rate swap arrangement in January of 2006 with a notional amount of \$11,900,000 and requiring the Company to pay interest at a fixed rate of 3.98% to replace the variable rate which was at 3.44% at December 31, 2007, and receive payments from the financial institution based on LIBOR until the arrangement expires in November, 2020. The spread paid by the Company is based upon the achievement of certain financial ratios. The fair value of this agreement at December 31, 2007 amounted to a liability of \$557,074, and the loss related to this arrangement is included in non-operating expense.

Capital Lease Obligations: During 2004, the Hospital entered into a capital lease agreement for equipment with De Lage Landen Financial Services, Inc. Monthly lease payments of \$3,447, including interest, are due through October 2007.

During 2007, the Hospital entered into a capital lease agreement for equipment with National City Financial Services. Monthly lease payments of \$12,473, including interest, are due through October 2011.

The following is a summary of property held under capital lease:

	<u>2007</u>	<u>2006</u>
Equipment	\$ 626,028	\$ 109,995
Accumulated depreciation	<u>(124,329)</u>	<u>(79,440)</u>
	<u>\$ 501,699</u>	<u>\$ 30,555</u>

REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7 - LONG-TERM DEBT (Continued)**

Future minimum payments on the capital leases are as follows:

2008	\$ 148,746
2009	148,746
2010	148,746
2011	<u>123,955</u>
	570,193
Amount representing interest	<u>72,848</u>

Present value of future minimum lease payments (current portion of \$116,922)	<u>\$ 497,345</u>
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**NOTE 8 - RETIREMENT PLAN**

The Hospital has established a defined contribution retirement plan (the Plan) which covers substantially all employees with at least 1,000 hours of annual service. The Hospital's plan includes a 401(k) feature with a matching component. Contributions by the Hospital are based on the participating employees' annual earnings and employees become fully vested in the Plan after five years of service. The employer can also provide for a discretionary profit sharing contribution. Contributions of \$748,251 and \$650,160 were expensed in 2007 and 2006, respectively.

**NOTE 9 - RELATED PARTY TRANSACTIONS**

The Hospital contracts with affiliates of Clarian Health Partners, St. Vincent Health, and United Hospital Services for various services. Fees for building rent, chaplaincy, laundry, linen, laboratory, drug screening, and overlap payments amounted to \$1,074,918 and \$1,004,896 in 2007 and 2006. Included in the 2007 and 2006 accrued expenses are fees of \$217,421 and \$191,873.

In January 2008, the Hospital entered into a billing and collection services agreement with one of its corporate members, Clarian Health Partners. The agreement states that Clarian Health Partners, will begin, as of January 2008 to provide various billing and collection services for the Hospital. Fees associated with this agreement are to be assessed on a monthly basis and determined based on 1.2% of the Hospital's monthly net collection of fees for services. This agreement terminates in January 2009, with the option for annual renewal.



REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 10 - EMPLOYEE BENEFIT PLAN**

In 2006, the Hospital participated in a self-funded health insurance plan covering substantially all employees. Covered services included medical benefits and prescription drugs. The plan had annual reinsurance coverage for a maximum eligible claim expense per incident per covered person in excess of \$75,000 and a maximum aggregate per covered person in excess of an attachment point of approximately \$1,325,000. The Hospital recorded a provision for claims incurred but not reported, which amounted to \$134,841 at 2006 and are included in salaries, wages, and related liabilities. Expenses of the plan for 2006 were \$1,432,028. The Hospital entered into a full indemnity plan for 2007. Expenses of the plan for 2007 were \$1,554,417.

**NOTE 11 - OPERATING LEASES**

The Hospital leases facilities and equipment under operating leases expiring at various dates through December 2012. Total rental expense in 2007 and 2006 for all operating leases was \$557,097 and \$235,832, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2007, that have initial or remaining lease terms in excess of one year.

Year Ending December 31

2008	\$ 660,113
2009	635,720
2010	395,275
2011	199,332
2012	<u>122,210</u>
	<u>\$ 2,012,650</u>

**NOTE 12 - CONTINGENCIES**

The Hospital is the defendant in certain litigation arising in the ordinary course of business. In the opinion of management, such items are adequately covered by insurance or their ultimate outcome will not have a material impact on the financial position of the Hospital.

REHABILITATION HOSPITAL OF INDIANA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 13 - NON-COMPETE AGREEMENT**

As part of the joint venture agreement to form the Hospital, the corporate members entered into a non-compete agreement in effect for the term of the joint venture and for a period of thirty-six months after its termination. The non-compete agreement prohibits the members, directly or indirectly, from providing adult inpatient rehabilitation medicine services or outpatient rehabilitation services that compete with services provided by the Hospital within Marion county and contiguous counties.